

Message Text

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ACTION ARA-14

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PM-05 H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01

PRS-01 SP-02 SS-15 USIA-06 LAB-04 SIL-01 XMB-02

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FM AMEMBASSY NASSAU

TO SECSTATE WASHDC PRIORITY 9786

INFO AMEMBASSY BRIDGETOWN

AMEMBASSY SANTO DOMINGO

USUN NEW YORK 085

LIMITED OFFICIAL USE SECTION 1 OF 2 NASSAU 1361

SANTO DOMINGO FOR AGRICULTURAL ATTACHE

E.O. 11652: N/A

TAGS: EAID, BF, ECON, ETRN, PFOR

SUBJ: FORMATION OF AD HOC TASK FORCE ON CARIBBEAN POLICY

REF: (A) STATE 204041 (B) NASSAU 1195 (C) USUN 2656

DESPITE FACT THAT BAHAMAS HAS CONSISTENTLY BEEN OMITTED FROM ITINERARIES OF AMERICAN OFFICIALS TRAVELING TO THE CARIBBEAN AREA AND FACT TOO THAT WE WERE SLUGGED ONLY AS AN INFO ADDRESSEE WE ARE NEVERTHELESS SUBMITTING RESPONSE TO REF (A) PARA 3 AS FOLLOWS FOR POSSIBLE USE BY TASK FORCE:

1. BILATERAL ASSISTANCE: THE BAHAMAS AGRICULTURAL RESEARCH TRAINING AND DEVELOPMENT PROJECT (BARTAD), A \$10 MILLION USAID FUNDED PROGRAM COVERING THE PERIOD JANUARY 1973 - JANUARY 1978 HAS BEEN THE ONLY BILATERAL AID THE BAHAMAS HAS RECEIVED SINCE ITS INDEPENDENCE IN JULY 1973. THIS
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PROJECT MAY BE EXTENDED IN JANUARY 1978 TO USE REMAINING FUNDS FOR AN ADDITIONAL ONE YEAR PERIOD. THE AIM OF THIS NOW HIGHLY SUCCESSFUL PROJECT HAS BEEN TO FIND WAYS TO PROVIDE A STABLE AND ECONOMICALLY VIABLE COMMERCIAL AGRICULTURE IN THE BAHAMAS BASED ON FAMILY TYPE FARMS. IT IS HOPED THAT EVENTUAL INCREASED AGRICULTURAL OUTPUT WILL PROVIDE JOBS AND DECREASE THE LARGE PROPORTION OF

THE FOOD SUPPLY WHICH MUST BE IMPORTED ANNUALLY. SPECIFICALLY, THE PROJECT HAS (1) ESTABLISHED A 500 ACRE AGRICULTURAL EXPERIMENT STATION; (2) IMPLEMENTED AGRICULTURAL DEVELOPMENT PROGRAMS TO (A) ESTABLISH 16 PILOT TEST FARMS; (B) PROVIDED FOR IMPROVED LAND TENURE; (C) MADE CREDIT AVAILABLE FOR FARMERS; (D) ESTABLISHED A FARMERS' COOPERATIVE, AND (3) TRAINING BAHAMIANS FOR EMPLOYMENT IN SCIENTIFIC AGRICULTURE.

COMMENT: ALTHOUGH BEGUN FIVE YEARS AGO AND BASICALLY RESEARCH ORIENTED, THE AIMS OF BARTAD CONTINUE TO BE CONSISTANT WITH AID'S OBJECTIVES FOR THE CARIBBEAN MOST RECENTLY ENUNCIATED BY ABELARDO VALDEZ, AID ASSISTANT ADMINISTRATOR FOR LATIN AMERICA, IN HIS TESTIMONY DELIVERED BEFORE THE HOUSE INTERNATIONAL RELATIONS COMMITTEE ON JUNE 26. (WE WISH TO NOTE THAT THE BARTAD PROJECT WAS NOT MENTIONED IN MR. VALDEZ'S TESTIMONY ALTHOUGH HE DID CITE BAHAMAS PER CAPITA INCOME AS BEING THE HIGHEST IN THE AREA). EMBASSY HAS BEEN INFORMED THAT MUCH WIDELY TALKED ABOUT GOVERNMENT ECONOMIC DEVELOPMENT PLAN MAY BE PUBLISHED EARLY NEXT YEAR GIVING MORE DEFINITIVE IDEA OF PRIORITIES WITHIN ALL SDCTORS. WE WOULD LIKE TO EMPHASIZE NOW, HOWEVER, THAT AGRICULTURAL DEVELOPMENT, WHICH WAS ACCORDED LOW PRIORITY BY THE GOVERNMENT IN THE 1960'S, HAS BECOME IN THE 1970'S AN AREA OF PRIME GOVERNMENT CONCERN. IN ADDITION WE ARE HOPEFUL THAT THE GOVERNMENT MAY COMMIT FUNDS FOR LIMITED OFFICIAL USE

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THE CONTINUANCE OF THE PROJECT WHEN U.S. MANAGEMENT AND FUNDING (EXCEPT AS THAT FURTHER EXTENDED FOR ONE YEAR) CEASES IN JANUARY 1978.

2. MULTILATERAL ASSISTANCE: THE BAHAMAS BECAME AN IDB MEMBER THIS YEAR AND IDB MISSION IS DUE HERE LATER THIS YEAR TO EXAMINE ASPECTS OF POSSIBLE GLOBAL LOAN TO GCOB FOR USE IN PRE-INVESTMENT STUDIES, TOURIST DEVELOPMENT AND INDUSTRY. THE ONLY MAJOR MULTILATERAL ASSISTANCE CURRENTLY IN PROGRESS IS \$10 MILLION IBRD WATER SUPPLY AND SEWERAGE PROJECT IN ASSOCIATION WITH THE CARIBBEAN DEVELOPMENT BANK (WHICH IS CONTRIBUTING AND ADDITIONAL \$3 MILLION). THE IBRD LOAN BEGAN BEING DISBURSED IN SEPTEMBER 1976 AND THE CDB PORTION IN NOVEMBER 1976. MAINTENANCE OF ADEQUATE WATER SUPPLY IN NEW PROVIDENCE WILL CONTINUE TO BE HIGH PRIORITY ITEM FOR GCOB FOR FORESEEABLE FUTURE.

COMMENT: SINCE THE BAHAMAS HAS ONLY RECENTLY BEGUN TO PLAY AN ACTIVE PART IN REGIONAL AND INTERNATIONAL INSTITUTIONS, IT IS A FOLLOWER, NOT A LEADER, IN REGIONAL COOPERATION. THE EMBASSY RECOMMENDS U.S. SUPPORT FOR ECONOMICALLY FEASIBLE AND VIABLE PROJECTS WHICH MAY

BE PROGRAMMED FOR THE BAHAMAS BY THESE INSTITUTIONS. OUR SUPPORT MAY BE ONE OF THE FEW MEANS AVAILABLE USG WILL BE ABLE TO DIRECTLY INFLUENCE ECONOMIC DEVELOPMENT SINCE NEW USAID PROGRAMS ARE UNLIKELY HERE IN LIGHT OF BAHAMAS \$2500 PER CAPITA INCOME (IMF ESTIMATE), AND ADMINISTRATION PRIORITY FOR ASSISTANCE TO POOREST COUNTRIES. THIS POLICY WAS MOST RECENTLY EMPHASISED DURING AMBASSADOR YOUNG'S CARIBBEAN TRIP (REF (C)).

3. INVESTMENT: THE BASIS FOR GCOB'S POLICY ON DEVELOPMENT, INDUSTRIAL DIVERSIFICATION AND INVESTMENT REMAINS AS EXPRESSED IN THE 1972 WHITE PAPER ON INDEPENDENCE. ITS THREE PREMISES ARE: (1) EFFECTIVE LIMITED OFFICIAL USE

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CONTROL OVER NATIONAL ECONOMIC ENVIRONMENT, (2) MAXIMIZATION OF BENEFITS TO THE BAHAMAS FROM DOMESTIC AND FOREIGN INVESTMENT; (3) INCREASED BAHAMIAN OWNERSHIP AND/OR PARTICIPATION IN BUSINESS ACTIVITY WHERE FEASIBLE. IT REMAIN GCOB POLICY TO PROVIDE TAX EXEMPTION AND INDUSTRIAL INCENTIVES (TO BAHAMIANS AND FOREIGNERS) TO PROMOTE INVESTMENT BY MEANS OF THE FOLLOWING THREE LAWS: UNDER THE HOTEL ENCOURAGEMENT ACT, 1965 (AND AMENDMENTS), GCOB MAY ALLOW CONCESSION TO PROMOTERS OF NEW HOTELS INCLUDING (1) EXEMPTION FROM ALL TAXES ON HOTEL EARNINGS FOR TWENTY YEARS; (2) EXEMPTION FROM REAL PROPERTY TAXES; (3) REFUND OF CUSTOMS AND OTHER IMPORT DUTIES PAID ON MATERIALS AND FURNISHINGS IMPORTED TO CONSTRUCT AND EQUIP HOTELS. TO QUALIFY FOR EXEMPTION HOTELS MUST BE PLANNED TO INCLUDE MINIMUM OF 20 ROOMS (10 FOR FAMILY ISLANDS). UNDER THE INDUSTRIES ENCOURAGEMENT ACT, 1970, THE GOVERNMENT WILL (1) EXEMPT MACHINERY, TOOLS, EQUIPMENT AND NECESSARY RAW MATERIALS FOR AN APPROVED FACTORY FROM CUSTOMS AND OTHER IMPORT DUTIES, AND OTHER TAXES; (2) EXEMPT EARNINGS OF APPROVED FACTORY FROM ALL TAXES FOR MINIMUM PERIOD OF FIFTEEN YEARS, BEGINNING WITH DATE FACTORY IS REGISTERED. BEFORE GRANTING THESE EXEMPTIONS THE GOVERNMENT (MINISTRY OF DEVELOPMENT)

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OMB-01 AGRE-00 OPIC-03 STR-04 CIAE-00 DODE-00
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PRS-01 SP-02 SS-15 USIA-06 LAB-04 SIL-01 XMB-02
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TO SECSTATE WASHDC PRIORITY 9787
INFO AMEMBASSY BRIDGETOWN
AMEMBASSY SANTO DOMINGO
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MUST BE SATISFIED THAT THE ESTABLISHMENT OF
PROPOSED FACTORY WOULD RESULT PRIMARILY IN
MANUFACTURE, ASSEMBLY OR PROCESSING OF PRODUCTS THAT
WOULD BE IN PUBLIC INTEREST.
FINALLY, UNDER THE HAWKSBILL BREEK AGREEMENT
(1955 AND AS AMENDED) THE GOVERNMENT HAS GRANTED
THE GRAND BAHAMA PORT AUTHORITY AND ITS LICENSEES IN FREEPORT
CONCESSIONS FOR DEVELOPMENT INCLUDING (1) FREEDOM FROM
TAXATION - THERE IS CONTRACTURAL GUARANTEE THAT AT
LEAST UNTIL 1990, THERE WILL BE NO PERSONAL INCOME
TAXES, NO CORPORATE PROFITS TAXES, NO CAPITAL GAINS
TAXES ON LEVIES ON CAPITAL AND NO PERSONAL OR REAL
PROPERTY OR INVENTORY TAXES; (2) FREEDOM FROM CUSTOMS
DUTIES - AT LEAST UNTIL 2054 NO EXCISE OR IMPORT
DUTIES WILL BE LEVIED ON EQUIPMENT OR MATERIALS USED
BY LICENSED BUSINESSES. PRESENTLY ONLY GOODS FOR
PERSONAL USE OR CONSUMPTION ARE DUTIABLE.
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BESIDES THESE THREE BASIC LAWS THE RULING PROGRESSIVE
LIBERAL PARTY (PLP) ISSUED GUIDLINES DURING ITS
1975 CONVENTION FOR SMALL RETAIL AND RETAIL DISTRIBUTIVE
TRADE BUSINESSES TO BE TOTALLY OR MAJORITY BAHAMIAN-
OWNED IN FIVE TO TEN YEARS RESPECTIVELY. THESE GOALS
WILL BE ACCOMPLISHED OVER PERIOD OF TIME BY USE OF
ADMINISTRATIVE TOOLS SUCH AS ISSUANCE OF WORK PERMITS
(BAHAMIANIZATION). RESULTS OF THESE INCENTIVES AND
INVESTMENT POLICIES ARE THE FOLLOWING:

HOTELS: WHILE INCENTIVES ARE STILL IN EFFECT THEY ARE NOT REALLY BEING EXTENSIVELY UTILIZED SINCE HOTELS IN THE BAHAMAS - BOTH NASSAU AND FREEPORT - HAVE EXPERIENCED LOW OCCUPANCY RATES. IN FACT TOURISM INDUSTRY - THE MAINSTAY OF THE ECONOMY - WAS SO SEVERELY AFFECTED BY THE ENERGY CRISIS IN 1974 AND 1975 THAT GOVERNMENT WAS FORCED TO BUY THREE MAJOR HOTELS IN NASSAU AND TWO IN FREEPORT TO KEEP THEM FROM CLOSING. ONLY MAJOR HOTEL CONSTRUCTION ANTICIPATED IS HOTEL/CONVENTION/CASINO COMPLEX TO BE BUILT BY STATE-OWNED BAHAMAS HOTEL CORPORATION IN CABLE BEACH AREA OF NEW PROVIDENCE. LIGHT INDUSTRY: GOVERNMENT (BAHAMAS DEVELOPMENT CORPORATION) EFFORTS TO PROMOTE DEVELOPMENT OF BAHAMIAN-OWNED INDUSTRIES HAVE NOT BEEN PARTICULARLY SUCCESSFUL. SINCE THE INDUSTRIES ENCOURAGEMENT ACT ONLY LIMITED NUMBER OF SMALL-SCALE FIRMS HAVE BEEN ESTABLISHED AND PRODUCTIVE CAPACITY OF LIGHT MANUFACTURERS HAS NOT INCREASED SIGNIFICANTLY SINCE 1970. IN FACT (AS OF MAY 1977) ONLY 27 FIRMS HAD REGISTERED FOR BENEFITS OF INDUSTRIES ENCOURAGEMENT ACT; 22 ACTUALLY STARTED PRODUCTION; AND ONLY 18 CONTINUE TO OPERATE. IT IS NO SURPRISE, THEREFORE, THAT THE GOVERNMENT ACTIVELY SEEKS AND ENCOURAGES MIDDLE TO LARGE-SCALE FOREIGN INVESTMENT. LIMITED OFFICIAL USE

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4. MAJOR INDUSTRIES AND U.S. INVESTMENTS:
TOTAL PRIVATE U.S. INVESTMENT IN THE BAHAMAS IS ESTIMATED AT \$1 BILLION AND ACCOUNTS FOR MORE THAN HALF DIRECT FOREIGN INVESTMENT IN THE BAHAMAS. MAJOR US INVESTMENTS IN FREEPORT ARE BORCO REFINERY AND TRANSHIPMENT TERMINAL (\$335 MILLION); SYNTEX CORPORATION (PHARMACEUTICALS); - (\$21 MILLION); COOPER LABORATORIES (PHARMACEUTICALS); BAHAMA CEMENT (\$75 MILLION BUT NOT PRESENTLY ACTIVE); RON MATUSALEM LTD. (RUM); TODHUNTER MITCHELL (RUM AND LIQUEURS). IN NEW PROVIDENCE THERE IS BACCARDI AND CO. (RUM) AND WOMETCO (COCA-COLA BOTTLING COMPANY). WOMETCO ALSO OWNS CABLE TV SYSTEM IN FREEPORT. ALSO, DIAMOND CRYSTAL SALT COMPANY (DEADMAN'S CAY, LONG ISLAND); MARCONA OCEAN INDUSTRIES, OCEAN CAY, BIMINI (ARAGONITE MINING); AND MORTON SALT (INAGUA). THE FOLLOWING ARE MAJOR U.S. INVESTMENTS IN THE HOTEL SECTOR:
RESORTS INTERNATIONAL (THE BRITANNIA BEACH HOTEL, INCLUDING LE CABARET THEATRE AND PARADISE ISLAND CASINO); LOEW'S PARADISE ISLAND HOTEL; HOLIDAY INN (ONE IN FREEPORT AND ONE ON PARADISE ISLAND); PRINCESS PROPERTIES INTERNATIONAL (XANADU PRINCESS AND XANADU TOWERS IN FREEPORT); BRITISH-AMERICAN INSURANCE CO.

(NEW PROVIDENCE) - OWNS MONTAGU HOTEL (PRESENTLY CLOSED) WITH 27 UNDEVELOPED ACRES ADJACENT TO IT; PILOT HOUSE HOTEL (ALSO OWNED BY BRITISH-AMERICAN). ANOTHER MAJOR INSURANCE COMPANY IS ABBEY NATIONAL INSURANCE (NASSAU) - A WHOLLY-OWNED SUBSIDIARY OF ITT. CITIBANK AND CHASE MANHATTAN HAVE MAJOR INVESTMENTS HERE IN THE BANKING SECTOR AS WELL AS SEVERAL SMALLER U.S. BANKS BECAUSE OF THE TAX HAVEN STATUS HERE. CANADIAN INVESTMENTS ARE ESTIMATED AT \$300 MILLION; U.K. - \$145 MILLION; AND GERMANY \$10 MILLION. MAJOR FOREIGN-OWNED INDUSTRIES INCLUDE BURMAH OIL (U.K. INTEREST) IN FREEPORT - TRANSHIPMENT TERMINAL, AND LIMITED OFFICIAL USE

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GERMAN-OWNED GRAND BAHAMA PIPE AND STEEL CO. (ALSO IN FREEPORT). COMMENT: MAJOR ECONOMIC DILEMMA CONFRONTING THE BAHAMAS IS PAUCITY OF BOTH LOCAL AND FOREIGN INVESTMENT. ONLY NEW FOREIGN INVESTMENT ANNOUNCED THIS YEAR IS \$5 MILLION CONDOMINIUM COMPLEX IN FREEPORT TO BE BUILT BY DANISH INTERESTS. MAJOR FUTURE GOVERNMENT INVESTMENT WITHIN NEXT TWO TO THREE YEARS WILL BE IN HOTEL/CONVENTION/CASINO COMPLEX. THUS WHILE INCENTIVES AND CONCESSIONS EXIST IN THE BAHAMAS, IMMEDIATE PROSPECT OF SIGNIFICANT AND LOCAL FOREIGN INVESTMENTS ARE NOT SANGUINE - WHILE UNEMPLOYMENT (ESTIMATED TOTAL IS 20-25 PERCENT - YOUTH UNEMPLOYMENT IS 45 PERCENT) CONTINUES TO REMAIN HIGH WITH OBVIOUS SOCIO-ECONOMIC REPERCUSSIONS, INCLUDING RISING INCIDENCE OF VIOLENT CRIME.

5. TRADE: BAHAMAS IS BENEFICIARY OF GSP AND SIGNATORY TO ACP LOME CONVENTION - BOTH OF WHICH WILL GROW INCREASINGLY IMPORTANT IF LOCAL INDUSTRY (LARGE OR SMALL) EXPANDS. COMMENT: BAHAMAS IS ALREADY HIGHLY DEPENDENT ON U.S. FOR IMPORTS AND EXPORTS. AT THIS TIME WE SEE NO U.S. TRADE MEASURE WHICH WOULD BE OF IMMEDIATE ECONOMIC BENEFIT TO THE BAHAMAS. TOURISM, WHICH IS MAINSTAY OF ECONOMY (77 GNP OR 64 PERCENT FOREIGN EXCHANGE SUPPLY) WOULD, HOWEVER, BE GREATLY ENCHANCED IF FOREIGN CONVENTION SECTION OF THE 1976 TAX REFORM ACT WERE FAVORABLY REVISED FOR THE BAHAMAS OR REPEALED IF BAHAMIANS ARE SUCCESSFUL ON THEIR EFFORTS TO OBTAIN ADDITIONAL CARRIER SEATS ON U.S. TO NASSAU RUN. TAYLOR

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Message Attributes

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